

Digest of Universal Income Withholding Program Costs

The state's role in collecting child support payments will soon expand, and there is a risk that Utah taxpayer costs will increase as well. A new federal law taking effect January 1, 1994, requires that new or amended child support awards include an order for income withholding. The state's Office of Recovery Services (ORS) is expected to collect the child support withheld by employers and distribute it to recipients. Unlike current child support enforcement activities, the bulk of which are federally funded, no federal financial participation is anticipated for the Universal Income Withholding (UIW) program. Thus, Utah taxpayers will pay for all costs in excess of fees. Although the data available to estimate future costs is not very reliable, we doubt that ORS' current \$2.50 per check fee will cover program costs. Our estimate is that costs could be as high as \$4.00 per check.

We initiated this review at the request of the Human Services Interim Committee. The committee chair asked that we limit the scope of our work so that we could report at this time because legislation to implement universal income withholding (House Bill 45) is being considered during the 1993 legislative session. House Bill 45 would increase child support awards by \$5.00 per month to cover the \$2.50 per check fee charged by ORS for two checks per month. Time constraints limited us to reviewing ORS' collection processing costs without investigating its efficiency.

The UIW program will be less costly than existing child support services because fewer services will be performed. The UIW program is expected to operate like a clearinghouse, simply receiving and disbursing funds. Thus, "UIW services" will include only (1) issuing a notice-to-withhold to an employer and (2) collections processing. In contrast, "full services" include (1) parent location, (2) paternity establishment, (3) support order establishment, (4) enforcement, and (5) collections processing. In fiscal year 1992, ORS spent about \$19 per check issued to non-AFDC clients. Isolating just routine collection processing costs, we estimate that it cost over \$5.00 per check issued to a full service non-AFDC client. While check processing costs for UIW clients should be less, we estimate they may be as high as \$4.00 per check.

A variety of limitations with existing data and unknowns about future costs make it difficult to reliably estimate future UIW program costs. For example, while the future efficiency of ORS staff in handling UIW cases is unknown, we feel ORS' assumption that a UIW case worker will generate 48,000 receipts is optimistic. In addition, ORS' cost accounting system makes it difficult to isolate computer costs of the collection processing function. Furthermore, ORS is expecting a new computer system to become operational during 1994 which could significantly change its cost structure. Because there are so many unknowns, no current estimate of UIW program costs is very reliable. While some costs may be estimated using fairly reliable data, other costs must be estimated using untested assumptions or questionable cost allocations.

ORS provided the Office of Legislative Auditor General (OLAG) with two estimates of UIW program costs. The first ORS estimate of \$3.81 per payment is based on fiscal year 1992 cost data and the assumption that case workers will produce 48,000 receipts per year. The first ORS estimate allocates computer and overhead costs based on staffing levels. ORS' second estimate of \$2.59 per payment adjusts the first estimate by halving accounting staff costs and doubling computer costs based on the anticipated impact of a future computer system. Also, the second ORS estimate excludes all overhead costs because it is assumed that total overhead will not increase. ORS officials state that their second estimate may be too optimistic.

OLAG's estimate of between \$2.90 and \$ 4.09 per payment is a range to reflect the unreliability of the available data. Our estimate is similar to ORS' first estimate in that it is based on fiscal year 1992 cost data; we have no basis to assess the impact of the new computer system. We adjusted the historical data to reflect the lower accounting staff costs for income withholding cases. In the non-accounting areas, estimated costs per check vary considerably depending on the assumptions used. Including only incremental computer and overhead costs and assuming high case worker productivity provides an estimate in the lower end of our range. Including a full allocation of computer and overhead costs and assuming lower case worker productivity provides an estimate in the higher end of our range. Realistically, all the per check cost estimates may be too optimistic because they ignore costs related to program start up and growth.

Whether Utah taxpayers subsidize the UIW program depends on program revenues as well as costs. Apparently, UIW program revenue will be limited to fees collected on payments processed. Currently, fees are set at \$2.50 per check up to \$5.00 in a month. Because of the monthly limit, not all outgoing checks are charged fees. For example, an employee on a biweekly payroll receives three checks in a month two times each year. For employees on weekly payrolls, over half the transactions processed by ORS have no fees assessed. We estimate the revenue shortfall resulting from transactions without fees to be about 10 to 20 percent. Thus, at the current \$2.50 per check fee, the UIW program revenue would average only about \$2.00 to \$2.25 per check.

If program fees do not cover costs, Utah taxpayers will make up the difference. ORS anticipates that it will process approximately 72,000 payments in fiscal year 1994 and 192,000 payments in fiscal year 1995. If there is no loss per payment, then taxpayers will not be affected. However, our estimates indicate a significant taxpayer contribution could occur. For example, if costs exceeded revenue by \$1.50 per payment, taxpayers could have to contribute nearly \$300,000 in fiscal year 1995, the first full year of the program.

In conclusion, we do not feel ORS' current fee of \$2.50 per check will cover UIW program costs. Therefore, we recommend that the Legislature raise the fee amount included in House Bill 45 above \$5.00 per month, or else recognize that a taxpayer subsidy of the UIW program will be required. However, due to the uncertainty in both UIW program costs and revenues, we feel this topic should be restudied in 1995 when there is program data to review.